

## **Retirement Committee Meeting**

Tuesday, April 22, 2014

Contois Auditorium

Committee Members Present: Mayor Weinberger, Bob Hooper, Jim Strouse, Mike Flora, Joe Keenan, Susan Leonard, Councilor Sharon Bushor, Bob Rusten, Councilor Jane Knodell, Councilor Karen Paul, John Federico, Eileen Blackwood

Committee Members Absent: Councilor Chip Mason, Bill Rasch, Jeffrey Wimette, Brian Lowe

Others Present: Ron Ruloff, Stephanie Hanker, David Driscoll (phone)

Facilitator Rusten called the meeting to order at 5:08 pm

**Agenda:** Knodell moved approval; Keenan seconded. Approved unanimously

**Minutes of April 8:** Bushor moved approval; Knodell seconded. Bushor asked to come back and discuss one point for clarity at end of meeting. Approved unanimously

**Public Comment:** Ruloff commented about typo on minutes. He also commented on risk-free investments and that the need to get an 8% return is a pipe dream. If we want risk-free investments, Treasuries are the way to go. City will have to consider going to a 401k plan and scrapping the current system. Parking garage fund is depleted and garages need repair. School budget is under investigation by IRS. The committee needs to know these things. This city needs real austerity. What if the PSB rejects the Citibank agreement?

**Buck Consultants:** Rusten proposed moving to Driscoll's spreadsheets since Driscoll was on the phone.

Driscoll: This spreadsheet allows us to compare projected unit credit and entry age normal methods, using 6/30/13, the last valuation date. Columns H-R show the different patterns of amortization using any one of these four values.

If installments are not level, the unfunded liability gets bigger before it gets smaller.

In FY15, the City is to contribute \$9M for normal rate and amortization of the unfunded liability. The total contribution to the unfunded liability is \$5.9M.

Columns H and I shows increasing installments, tracking personnel costs generally.

Bushor: If we were to stay the course, then we spread out over long time and put less in than we do currently.

Driscoll: Unfunded liability is front loaded, as we currently have amortization dating back to 2004. This produces a slightly larger number in the current year. Relief comes from the year to year adjustment.

Bushor: Aren't we still accruing unfunded liability?

Driscoll: Not if assumptions match experience. But they never do actually match—sometimes they are higher; sometimes lower. The plan was changed with different benefits for those hired after 7/1/07, so this is one example of how you can have increases and decreases in the unfunded liability over time.

Rusten: If we look at 2015, we save \$1.4M in columns H and I. Then, if we add \$700K back as additional contribution, would that change all the future columns?

Driscoll: Yes.

Rusten: In other words, what if we put half of the savings into past service costs?

Driscoll: If you put in \$5.2M instead of \$4.5M, then that additional money grows at 3.5%. Then you can shrink the time to pay off the unfunded liability to 23 years and can get rid of the unfunded liability sooner.

Federico: Did you mean not to include the 3%?

Rusten: Yes, recalculate in FY16 and each successive year.

Weinberger: Is it correct that the revised mortality rates add 10-15% to the unfunded liability? What are the implications?

Driscoll: The new mortality table is a brand new, exposure draft. It is likely to be adopted by the Society of Actuaries. This is not a change we'd have to make right away, but will confront it in the future. Because this new table has a full projection of future mortality improvements, you would never again have adjustment like that.

Weinberger: We don't have future projections now?

Driscoll: The current tables run out to a future year, and then they stop. This new table is fully generational, so projected improvements in longevity go on indefinitely. This means a big increase on first changing, but the change will then spare future surprises.

Federico: Will the new mortality table, since BERS can build in COLA's up front, mean the system gains momentum?

Driscoll: The table is from insured annuitants' mortality expectations—a white collar, professional workforce. The impact of COLA's means a larger part of the liability is derived from payments to be made in future years, and thus the impact of the new tables is larger.

Rusten: If we look at columns H and K and keep the current installment payments, would there be a significant difference in the total amount paid?

Driscoll: If we use the increasing installments method, which would better track true personnel costs, the total cost would be \$215M. If we use level installments, the total of contributions to the unfunded liability over 30 years would be \$180M--because more accrual of interest with the increasing installments.

Rusten: But we would also be using inflated future dollars to pay for the increased installments. For example, when TIF's end, more money would be available.

Driscoll: It is not a bad idea to amortize, as long as we do a reasonable rate and recognize it's a deferral.

Bushor: Why defer?

Driscoll: The method tracks personnel costs better, as salaries rise, and allows the use of future dollars.

Rusten: Have you looked at the effects of switching to an open system?

Driscoll: Just about done the analysis. At the next session, he should be ready to discuss the open system.

Knodell: Back to the mortality tables, currently we assume longer lives?

Driscoll: Yes, through 2017.

Knodell: Have we been under-predicting?

Driscoll: The city is not large enough to generate accurate statistics. We don't see a pattern of consistent underpredicting, but it is not really a statistically sound analysis. We have to use a good standard table.

Weinberger: Is the change to mortality tables because the standard was underpredicting?

Driscoll: Yes. It's now about 14 years old, and it's become clear that the scale underanticipated improvements in longevity.

Weinberger: Concerned about a plan that continues to accept indefinite mortality into the future.

Knodell: Does that mean considering a hybrid plan?

Driscoll: There are plans that vary contributions over time.

Rusten: Do the new GASB rules require us to move away from projected unit credit (PUC)?

Driscoll: We must use entry age normal (EAN) as the basis for financial reporting under the new GASB rules, but they don't tell us what to use for funding. We could still use PUC for funding.

The conversation with Driscoll ended, and he was excused at 5:45 pm.

Rusten: What do we want to do with this information?

Strouse: We need to wait for the next piece of what's coming from Driscoll. You're going to have to do a little playing with these numbers.

Weinberger: We need to seriously consider the changes in the mortality rates, as that's real.

Strouse: This new longevity calculation didn't exist at the last go-round. It's somewhat clear that it's needed, at least in near future, maybe not in perpetuity.

Paul: Longevity rates have increased over last 40-50 years almost every year, so this is important.

Rusten: The tiered amortization clearly makes a difference (3 cents on the tax rate, Paul noted).

Bushor: Wouldn't that just push the pain out? Is there something to do with \$1.4M to stabilize more?

As installments increase, this might be offset by new revenue? How does this work?

Knodell: As the economy grows, the city has more money.

Bushor: I've lost track of TIF's, do you have those numbers? Are some of them paid off in the next 10 years?

Rusten: Yes. We'd lose education \$, but regaining the TIF money will make a significant difference to the general fund.

Paul: The grand list has been growing at only 1% per year--not sure that pans out versus level payments.

Federico: This is closed version, and it will be interesting to see the open system.

Rusten: We can continue to talk about this. We can ask BERS to look at this. What do we want to do?

Federico: BERS should look at whatever it needs to look at. This committee should hold back recommendations until all our work is completed. We should give BERS a package, not piecemeal recommendations. Also, we should wait for the consultant.

Rusten: Does the committee want to plug more numbers in? I will circulate the spreadsheet so folks can do their own manipulations.

Keenan: Let's wait for the open system results.

Bushor: I would be interested in seeing the spreadsheet run with the level funding at 0.

Weinberger: We learned two significant things from this chart: 1) The change in mortality table is significant and important, and 2) We should understand that increasing payments over time may be wise—wants to task someone to look at this seriously.

Paul: What is the benefit other than saving money now?

Weinberger: It is fairer. Otherwise, the system burdens current payers more. If we free up a million dollars, that may give us something to work with. This is a level of flexibility that's unexpected.

Federico: It may not be that we want to change mortality tables; we may have to.

Strouse: We can do this now or a lot bigger later.

Bushor: The new table hasn't yet been adopted by the Society of Actuaries.

Rusten: It appears that we can go to the new mortality tables, use increasing installments, still reduce the city contribution, and still pay off the unfunded liability in a shorter time.

Rusten: Just as we saw that changing our asset management wouldn't get us totally out of the current fix, this information suggests that these changes won't either. They may help but won't be the entire solution. For now, we are agreed to wait for more information from Driscoll on the open system.

### **Mayor Weinberger's Analysis On Modified Asset Distribution**

Rusten: Where are we on getting information on modified asset distribution?

Weinberger: There are examples of larger states moving to passive investment over active management. California has moved half its portfolio to passive. Maryland, New York are exploring as well. We have some calls out, and would like to hold this topic to the next meeting. The idea is to confirm whether we can drop our costs by as much as \$500K a year.

### **BERS Board Position on Funding this Committee**

Rusten: We are looking for an update on the discussion with BERS about funding this Committee's work.

Strouse: BERS agreed that given our common interests and ideas, they'd fund up to \$3000. That was Driscoll's estimate for the work he has done up through today.

Federico: Is what Driscoll doing now covered within the \$3000?

Rusten: Will check.

### **Consultant Selection**

Rusten: What do we think the consultant should do?

Strouse: Brainard's scope of work seems to be right on. Mindful that first person was always on road. Brainard seems interested, available, knowledgeable, and unbiased.

Rusten: Can we focus on what we want the consultant to do?

Bushor: We're being fed a lot of information, so I have a lot of questions and want the consultant to validate or respond to the direction we're planning to go, a person from outside who is validating our course.

Flora: The consultant would work on some assumptions, model them, and then we would pass the information on to BERS who would be the ultimate authority on what direction to take.

Rusten: What do you mean about assumptions—assets, funding, etc.—or something more—the system itself and how it is modeled?

Flora: All of that. What if we do nothing? What happens if we do investment reallocation? What about a different structure for new employees? What would that model look like? I would expect the consultant to give ideas. Then this committee doesn't make the decisions. That's for someone else.

Knodell: We could keep the consultant's work focused if we came up with a target by a certain date—we want to reach X funding by Y date, and then ask the consultant how do we get there.

Keenan: Didn't get to hear Brainard, but heard positive feedback about him. The key is these folks have seen other systems out there. Hopefully, they will help us to focus on the best options.

Hooper: The variability of options is staggering. The door has to be very open to different courses. Didn't participate in interviews, but the open mind is the best thing we can come to this with.

Weinberger: Agree that we're looking for someone with broad experience, who can identify range of options, based on others' experiences, and some sense of how options have played out. There may be a future role for the consultant if we want them to pursue a particular option, but mostly they would be framing the universe of what we have/can do.

Federico: Agrees with what everyone's said so far. The consultant needs experience and a knowledge base. I hope they'll be able to help us rule out options and narrow it down. I don't think either person will tell us what to do and hope they can help us focus.

Rusten: The consultant will help us identify all options for areas we should consider and help us understand the experience of other communities with those options.

Leonard: Getting information like this spreadsheet is very helpful—to convert the options into specific numbers.

Rusten: Bill Rasch earlier said he wants someone to make recommendations; do others agree? The group generally agreed that yes, we want someone to help us at least narrow them down.

Rusten: Brainard has identified \$3000 as his cost. Kim has not given a \$ figure. Kim is in DC, Brainard in TX. Both thought they could do a lot by phone. So, if we assume \$2-5000, do we know where we'll come up with the money?

Mayor Weinberger and Councilor Knodell confirmed that there would be a commitment from the mayor and Council to find the money.

Bushor: Does Brainard's proposal get us where we need to go for \$3000?

Rusten: Both consultants said they won't price us out, as we're members of their organizations.

Paul: Is there one of the two consultants that those who sat in on both interviews liked better?

Federico: Liked both of them. Both seem to have knowledge, but Brainard's interest was so clear. What he can bring to the discussion seemed clear. If pressed, I would go with Brainard.

Blackwood: Both have lots of experience, but Brainard's seemed broader.

Rusten: Both said they're pro-pension, not pro-management or pro-labor. Kim was traveling a lot. Impressed by Brainard's desire to do this. Kim saw this assignment as part of his job.

Leonard: Rasch said he was present at both interviews, and Brainard would be his choice.

Keenan: Checked with people and got positive comments. The only negative I heard was that Brainard could be somewhat technical at times.

Strouse: Moved to hire Brainard. Hooper seconded. The committee did not vote on the motion, but it was decided that the process would be to take the proposal to the next Board of Finance meeting for approval with the sense of the committee to avoid recusal of the BOF members.

### **Timeline and Work Plan:**

Paul: Does it make sense to discuss the timeline with Brainard first?

Knodell: He already proposed a time for the first meeting in the first week of June.

Rusten: Could councilors give an update to the Council at its April 28 meeting—to be clear that we won't meet the end of May deadline?

Bushor: This could be done as a committee report as opposed to a more formal presentation. We don't have much to deliver yet.

Knodell and Paul agreed. The Committee agreed generally with that approach.

### **Back to the Minutes:**

Bushor: On p. 2 of April 8 minutes, Driscoll said the City pays. Is that just the taxpayer?

Rusten: Is the employee's contribution fixed?

The group confirmed that it is.

Strouse: But the city is not just the taxpayers—it's also BED ratepayers, school, airport, enterprise funds.

### **Next Meeting:**

Rusten: Will not be at the next meeting. Who will facilitate on May 6?

Federico: Proposed waiting until Rusten returns.

Keenan: What do we need to do in this time?

Paul: Don't want to lose momentum.

Rusten: We need to define the scope of consultant work.

Weinberger: Is it clear how we get the consultant engaged and keep that moving?

Rusten: Maybe a smaller group of us could work on getting something in writing with the consultant and bringing it back to this group. So maybe we should not meet on May 6, but wait until we meet on May 20. In the interim, a smaller group can nail down the details with Brainard. Federico, Leonard, Flora, Strouse, and Rusten will be that smaller group.

Rusten will forward everyone the Excel worksheet.

No other business.

Strouse moved to adjourn; Leonard seconded. Unanimous. The meeting was adjourned at 6:42 pm.